

**DIRECTOR DIANE FARRELL
EXPORT-IMPORT BANK OF THE UNITED STATES**

**HEARING BEFORE THE
UNITED STATES INTERNATIONAL TRADE COMMISSION**

***SMALL AND MEDIUM-SIZED ENTERPRISES: U.S. AND EU EXPORT
ACTIVITIES, AND BARRIERS AND OPPORTUNITIES EXPERIENCED BY U.S.
FIRMS***

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I. Introduction

Madam Chairman Aranoff and Commissioners, it is my pleasure to appear before you today at this very important and timely hearing. We at the Export-Import Bank of the United States (Ex-Im Bank) can offer our knowledge to the ITC because, in the performance of our myriad of duties as the official export credit agency (ECA) of the United States, Ex-Im Bank has gained considerable experience in working with and supporting U.S. small and medium-sized enterprises (SME) exporters with export financing. As part of our ongoing focus on SME exporters, we have gleaned insights into and an in-depth understanding of the issues SMEs face in their efforts to export, particularly with regard to both pre- and post-shipment export financing.

Accordingly, I would like to provide an overview of the role that Ex-Im Bank plays in the exporting process, and provide a high level perspective and general comparison of what our EU counterparts offer their SME exporters as indicative of the types of information the ITC should consider including in Study 2 of your 3-part study. Ex-Im Bank is willing to assist the ITC in developing its comparison in this specific area.

I would also like to note that while the comparison that the ITC has been requested to draw is between U.S. and EU SMEs, from an export credit perspective, key players in the ECA world also include the Canadian ECA, EDC, and the Japanese ECAs, NEXI and to a lesser degree, the Japan Bank for International Cooperation (JBIC). Accordingly, I have also included these ECAs and would recommend that they be part of the overall comparative analysis, given the significant role they play in each country's export support mechanisms.

II. Overview and History of Official ECA support for SMEs

The export credit world is comprised of both private and public sector ECAs. Virtually all private sector ECAs operate in the short term export credit area (0 - 360 days) and several also operate in the medium term credit range (1-5 years). On the other hand, official ECAs operate primarily in the medium and long term while relatively fewer offer short term programs. Small SMEs tend to offer products and services that fall into the short term arena such as consumables, commodities, spare parts, and finished goods, whereas medium and large companies tend to produce capital goods, aircraft and participate in large projects. The U.S., Canada and Japan ECAs all offer official short, medium and long term export credit support.

However, in the EU, the major official ECAs do not and have not provided short term export credit support for approximately the last 12+ years because of an EU Directive. In 1997, the European Commission prohibited government ECAs from providing short term cover for “marketable” risks, based on the theory and practice that the private sector provided this product and should not have to compete with the official ECAs. (This prohibition does not pertain to medium or long term ECA support.)

Accordingly, the EU governments dissolved their short term products and lost a key focus on SMEs because the term/products that the SMEs used most frequently – short term insurance - was a product that the private ECAs were expected to, and did, offer. In addition, none of the EU ECAs adopted any special programs for SMEs in their medium or long term programs of which we are aware. With the one exception of EulerHermes of Germany who has continued to offer short term cover through a temporary “escape clause” that no other ECAs chose to use, none of the other major official ECAs have offered short term cover as a standard product.

Subsequently, greater attention was turned to SME export financing needs because many small businesses were having difficulties in accessing short term export credit insurance or financing support from the private sector. Whether this attention was in response to the market gap or was purely coincidental is not clear. In 2005, the EU Commission extended the Directive until December 2010 and modified the guidelines effective January 2006 to allow EU ECAs to provide short term insurance cover for SMEs, recognizing the financing difficulties SMEs were facing in their international endeavors.

Specifically, in 2005, the EU Commission noted that:

“due to the unavailable or insufficient cover in the majority of Member States of export credit insurance offered by private insurers to small companies with a limited export turnover, which is caused by no or very low profitability reflecting an insufficient spread of foreign countries/buyers and lack of education and knowledge of the complexities of export credit insurance among such companies entailing significant handholding and processing costs, the Commission is prepared to consider their export related risks as temporarily non-marketable in these member States where there is no adequate offer by the private market, also in consideration of the need for the commercial insurers to adapt to the increased market sized created by the EU enlargement.”¹

In 2007, the Final Report of the Expert Group on Supporting the Internationalization of SMEs notes that on the issue of export credit support for SMEs, one of the main barriers to SME internationalization is the lack of financial resources with access to sufficient and affordable finance a fundamental pre-requisite for internationalization. The report continues: "Government programmes must focus on the provision of expertise usually

¹ Official Journal of the European Union, Communication of the Commission to Member States amending the communication pursuant to Article 93(1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export-credit insurance (2005/C 325/11). Page 1.

associated with individualized programmes on the available financial support mechanisms. The report concludes on this point, however, “For trade related finance existing mechanisms (trade credit insurance, guarantees, factoring, etc.) the level of information and availability is good across most European countries.”²

Even more recently, in 2008, the EU passed the “Small Business Act for Europe” that reflects the Commission’s political will to recognize the central role of SMEs in the EU economy and for the first time puts into place comprehensive SME policy framework – with 10 guiding principles – for the EU and its member States. The Act applies to all companies which are independent and have fewer than 250 employees, 99% of all European businesses. According to Gunter Verheugen, EC Vice-President for Enterprise and Industry:

“Now is the time, once and for all, to cement the needs of SMEs in the forefront of the EU’s policy. The SBA brings the full weight of Europe behind SMEs – enlisting all the resources of Europe to help small business in their daily business and to clear the path for these that want to create more jobs and grow in Europe and beyond.”³

On 15 December, 2009, the Commission adopted a report by a panel of experts on progress made in implementing the SBA, both at the EU and national level. While the findings articulated in this recent report note that access to finance by SMEs is of critical importance, the Report does not discuss specific components of the need for financing.⁴

Finally, in understanding how other ECAs approach their responsibilities generally and, specifically how it pertains to SME support, it is also important to note that there are fundamental philosophical differences between the EU ECAs (and Canada) and US Ex-Im Bank. EU ECAs have become more like private sector companies (and in fact most are, but act as agencies acting on behalf of the government in the medium and long term). Their private sector orientation and philosophy has become more prominent as they have evolved over the last 5 – 10 years. The EU ECAs have now gone beyond the break-even objective to a “for profit” motivation. This approach coincided with the 1997 EU Commission directive regarding the short term export credit and its “marketable” nature because the economics of assisting SMEs was not very supportive of the ECAs’ profit objectives.

However, the EU ECAs also appear not to be concerned with competing with the private sector in the medium or long term (as does Canada). As far as SMEs are concerned in the medium and long term area, the EU ECAs do not offer any special programs for small businesses but rather expect them to use the standard programs they have available for exporters of all sizes. Thus, while most of the exporters in their respective countries are SMEs (just as they are in the U.S.), unless the SME exporter and their buyers qualify under

² European Commission Enterprise and Industry Directorate –General, “Final Report of the Expert Group on Supporting the Internationalization of SMEs”, page 23.

³ http://ee.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

⁴ European Commission, Commission Working Document, “Report on the implementation of the SBA”, Brussels, COM (2009) 680.

their standard programs which are designed to earn a profit for the ECAs, neither are they financeable nor do they get special attention.

Official G 7 ECAs: Overall Menu of Program Offerings

ECA/ PROGRAM	Ex-Im/ USA	EDC/ Canada	ECGD/ United Kingdom	Coface/ France	SACE/ Italy	Euler Hermes/ Germany	Nexi/ JBIC Japan
Pre-Export/ WC	Yes	Yes	Being developed	No	No	No	No
Short term	Yes	Yes	Letter of Credit guarantee temporary	“CAP Export” ⁵ temporary	No	Yes; limited	Yes/No
Medium Term	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Long Term	Yes	Yes	Yes	Yes	Yes	Yes	Yes

It is important to note that during this most recent period of global financial stress and turmoil, those ECAs that have continued to offer short term export credit cover (Ex-Im Bank, EDC and Nexi) have been praised by the world-wide banking sector because without the guarantee or insurance of the government ECA, the banks would have had to significantly limit their support, especially to SMEs. Conversely, trade finance lenders operating in the EU have not been willing to proactively participate for 2 reasons: many of the private export credit insurers have retreated and are viewed as unreliable partners by the banking community. In addition, the long term viability of some of the credit insurers has been questioned. Specifically, on March 2, 2010 it was reported that Coface’s long-term counterparty credit and insurer financial strength was downgraded by S&P from A- to A; its short term ratings were also lowered from A-1 to A-2. As noted by the OECD, the WTO, and G 20 Trade Finance Experts, a significant gap in trade finance emerged during this financial crisis and was cited as contributing to the steep decline in global trade and economic growth.

Hence, private short term export credit insurance in the EU has not always been an option and even if it is, lenders and exporters have been more reluctant to rely upon it, especially during the financial crisis. Thus, with the absence of consistent and reliable levels of official support, the bottom line is that lenders and exporters operating in the trade finance area in the EU have not had ready access to short term export credit support from the private sector.

⁵ CAP Export is a temporary short term export credit program authorized by the EU Commission to the public part of Coface of France in cases where the private sector is not available and the transaction meets credit standards.

III. ECAs' Support for SMEs

Official G 7 ECAs Programs – SME Export Credit Support

ECA/ Program	Ex-Im/ USA	EDC/ Canada	ECGD/ UK	Coface/ France	SACE/ Italy	Euler Hermes/ Germany	Nexi/ Japan	JBIC/ Japan
Pre-Export/ WC	Yes; WCGP	Yes; WCGP	Being developed	No	No	No	No	NA
Short Term	Yes; SB Policy	Yes	No	No; presumably CAP Export will do	No; SACE BT created	Yes; under “escape” clause	Export credit insurance for SMEs (2005)	NA
Medium Term	Standard	Standard	Sovereign Star Trade Finance Facility (ECA specific) ⁶	Standard	Cassa Depositi e Prestiti easy loans private sector partner w/SACE	Standard	Standard	SME loans in Asia; Advisory & Consultin g office for SMEs
Long Term	Standard except for Tied Aid	Standard	Standard	Standard	Standard	Standard	Standard	SME loans to Asia; Advisory

A. US Ex-Im Bank

Ex-Im Bank is committed to support small business exporters and the U.S. jobs that they maintain and support. In fact, about 85% of the Bank's transactions support small businesses. Small businesses can access all Ex-Im Bank products, including specialized small business financing tools such as our working capital guarantee and export credit insurance. Chairman Hochberg has set a goal of doubling Ex-Im Bank's support for small business to \$8 billion over the next 2 years. We are going at it from two angles. First, the Ex-Im Bank is focusing on improvements in its current outreach strategies as well as exploring new partnerships and venues to make sure SME exporters are aware of Ex-Im Bank and the services we can provide to help them compete on a level playing field. In addition, the Bank is exploring the possibility of new products as well as ways to improve upon what we have and how we operate today. (In a recent ranking undertaken by the British Exporters Association, Ex-Im Bank and EDC of Canada each scored the highest in terms of offering the most extensive line of products. Copy attached.)

With regard to our basic program menu, our working capital guarantee and insurance products enable small businesses to increase sales by entering new markets, expanding

⁶ Sovereign Star Trade Finance Facility is a private sector export credit lender who provides fixed rate medium term loans valued at 50,000 pounds up to 2 million pounds sterling for British exporters and is insured by ECGD.

their borrowing base, and offering buyers financing while carrying less risk. Often, small-sized exporters do not have adequate cash flow or cannot get a loan to fulfill an export sales order. The Ex-Im Bank working capital guarantee was designed with the small exporter in mind and assumes up to 90% of the lender's risk so exporters can access the necessary funds to purchase or produce U.S.-made goods and services for export.

Our short-term insurance policies protect an exporter against non-payment by their foreign buyers due to both commercial (insolvency, bankruptcy and default) and political risks (war, revolution, transfer risk) and also allows exporters to extend competitive credit terms to their foreign buyers. To qualify for Ex-Im's Small Business Policy, the exporter must be a small business according to the U.S. Small Business Administration's definition of a small business, and have annual export credit sales of less than \$7.5 million (excluding confirmed letters of credit and cash in advance) for the last two years (including those of their affiliates). For the Small Business Policy exporters, special terms apply and include:

- No first-loss deductible
- Simplified premium-rate schedule
- Enhanced assignment (for qualified exporters), an attractive financing feature that allows a lender to add foreign receivables into the borrowing base or advance funds on the insured receivables with limited risk.

Ex-Im Bank's Small Business Group serves as the Bank's primary outreach and business development group for small business domestic customers. Exporter contacts are made through a network of regional offices and staff at our Washington, D.C. headquarters including Women and Minority Outreach, Trade Association Outreach, and Multiplier Training and Outreach.

In particular, Ex-Im Bank works with small businesses at the local level through its five regional offices that provide assistance to companies in their territories. The regional office network is the vital link between exporting communities located throughout the United States and Ex-Im Bank. The regional office network provides a geographic market-focused enterprise which broadens Ex-Im Bank's reach into small-size U.S. exporting companies. Our regional offices also work in partnership with other agencies through the US Export Assistance Centers serving the export communities' needs in order to harness all available Federal, State and Local resources to enhance and encourage small business export activity.

We also work through a nationwide network of over 50 city-state partners - state and local organizations that provide information and assistance on the Ex-Im Bank's products. We also work with 120 delegated authority lenders in all fifty states and the District of Columbia that can directly commit Ex-Im Bank's guarantee on working capital loans. In addition to our regional office staff, insurance brokers in every state can assist with Ex-Im Bank's export credit insurance applications.

B. EU ECAs' Support for SMEs

The EU ECA model is one that is most often characterized as a private company that acts on behalf of their government in the medium and long term while the private side of the ECA operates on behalf of the private company. One common theme among all of the ECAs briefly described below is that they provide support on a “made by” vs. “made in” basis in varying degrees whereas here in the U.S., Ex-Im Bank supports “made by” U.S. exports only. That is, Ex-Im Bank finances only the U.S. portion of U.S. goods and services, whereas the other ECAs will support up to 100% of an export that contain a fairly high degree of foreign content.

1. ECGD/United Kingdom: ECGD was one of the first official ECAs to divest itself of its short term export credit insurance book. In 1992, ECGD sold its short term portfolio to NCM of the Netherlands, now known as Atradius. Since then, ECGD has operated only in the medium and long term export credit area and does not offer any special programs aimed at SMEs. However, as a temporary measure, ECGD introduced a letter of credit guarantee program in October 2009 to address the lack of liquidity in the short term trade finance area. While this temporary capacity is not focused exclusively on SMEs, presumably SMEs could benefit. A February 20, 2010 article in the “Economist” publication confirms ECGD’s efforts.
2. Coface/France: Coface is a private company that acts on behalf of the French Government in the medium and long term and operates on its own behalf in the short term. Coface does not offer any special programs for SMEs. However, the public side of Coface has begun offering short term insurance pursuant to permission obtained from the EU Commission from which SMEs could benefit.
3. Euler Hermes/Germany: EH Germany is also a private company that acts on behalf of the German Government in the medium and long term (along with Price, Waterhouse, Coopers – PWC). It operates a bifurcated program in the short term in which most of their portfolio is written on behalf of the private company with a limited amount on behalf of the German Government. However, the government program has no programs that are designed specifically for SMEs other than advisory services.
4. SACE/Italy: SACE is backed by the Italian Government but its short term program is considered a private entity while the Italian Government operates the medium and long term.

C. Other Official ECAs

1. EDC/Canada: EDC is a Crown Corporation of the Government of Canada and operates as the official ECA of Canada. EDC’s support for exports spans all terms (short, medium, and long) as well as pre-export support mainly in the form of export working capital. EDC has a very strong focus on Canadian SMEs with the pre shipment working capital and short term programs aimed primarily at this

segment of their exporting community. In addition to export support, EDC also provides domestic financing support acting as a one stop shop for SMES for their domestic and export financing needs.

2. Nexi/Japan: Nexi is one of two official Japanese export credit agencies with the other one being the Japan Bank of International Cooperation (JBIC). Nexi provides short, medium, and long term export credit insurance
3. JBIC/Japan is the lending ECA and offers direct funding for medium and long term exports. JBIC offers consulting services to SMEs as well as offering loans to SMEs exporting to buyers in Asia.

IV. Summary

- A. Of the G 7 ECAs, U.S. Ex-Im Bank and EDC of Canada offer the most robust menu of programs designed with SMEs in mind. Moreover, the support that these ECAs offer today are a “constant” and relatively reliable source of export financing for small businesses whereas SMEs in other major exporting countries, especially in the EU, have not had this level or type of consistency and dependability.
- B. The trade finance gap identified during the current financial and economic crisis has been emblematic in exponential terms of the credit gap that has been growing for SMEs since 1997. However, the EU Commission and Member States have apparently recognized the market failure that exists across their continent regarding trade finance for SMEs and efforts to address it are clearly underway.

It has been my pleasure to appear before you today, and I look forward to any questions you may have.